

# Higher Education Tax Benefits

## Tax Year 2008 - How Students and Parents can Save



The Iowa College Student Aid Commission connects you to information and resources that help parents and students finance education expenses beyond high school. The IRS offers various tax savings (deductions or credits) to individuals and families paying higher education expenses. This information is intended for educational purposes and should not be considered as legal or tax advice. You should consult your professional tax advisor or attorney for more information about the higher education tax benefits and to determine your eligibility. You also may consult the IRS's Publication 970 on Tax Benefits for Education online at [www.irs.gov](http://www.irs.gov).

### Student Loan Interest Deduction

You can deduct interest paid on student loans to reduce the amount of your taxable income.

- To be eligible, the loan(s) must have been borrowed to pay qualified educational expenses for a student who was enrolled at least half-time in a postsecondary degree or certificate program.
- A maximum of \$2,500 may be deducted each year. The allowable deduction decreases as income increases.
- In addition to simple interest on the loan, the following also may be considered student loan interest: loan origination fees, capitalized interest, interest on revolving lines of credit used to pay qualified educational expenses, interest on refinanced student loans and voluntary interest payments.
- Loans must have been used to pay for higher education expenses which may include tuition, fees, room & board, books, supplies, equipment, transportation and other necessary expenses.

### The Hope Scholarship Tax Credit

The Hope Scholarship is a tax credit that reduces the amount of income tax you may have to pay.

- If you owe less in taxes than your maximum credit, you may only take the credit up to the amount of taxes owed.
- Up to \$1,800 (\$3,600 for Midwestern Disaster Areas<sup>2</sup>) for each eligible dependent student may be claimed for the first two years of college. The student(s) must be listed as a dependent on your federal tax return unless the credit is for the taxpayer or the taxpayer's spouse.
- Eligible students must be enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential and have no felony drug convictions before the end of the tax year. You can claim the Hope Scholarship based on the same student's expenses for no more than two years.
- Eligible education expenses include tuition and other related expenses<sup>1</sup> but not room and board.

### Lifetime Learning Tax Credit

The Lifetime Learning Tax Credit reduces the amount of income tax you may have to pay.

- If you owe less in taxes than your maximum credit, you may only take the credit up to the amount of taxes owed.

### Lifetime Learning Tax Credit, cont.

- A credit of up to \$2,000 (\$4,000 for Midwestern Disaster Areas<sup>2</sup>) per family per tax return may be claimed for all years of postsecondary education and for an unlimited number of tax years. The student(s) must be listed as a dependent on your federal tax return unless the credit is for the taxpayer or the taxpayer's spouse.
- Eligible students must be enrolled in at least one post-secondary education course. The course must either be part of a degree program or taken to acquire or improve job skills.
- Eligible education expenses include tuition and other related expenses<sup>1</sup> but not room and board.

### Tuition & Fees Deduction

The Tuition and Fees Deduction reduces the amount of a taxpayer's taxable income.

- Up to \$4,000 paid for tuition and fees may be deducted as an adjustment to income even if you do not itemize deductions. This may benefit taxpayers who do not qualify for the Hope or Lifetime Learning tax credits. The student(s) must be listed as a dependent on your federal tax return unless the credit is for the taxpayer or the taxpayer's spouse.
- Eligible higher education expenses include tuition and other related expenses<sup>1</sup> but not room and board.
- Eligible students must be enrolled in one or more courses at an eligible educational institution and must have either a high school diploma or GED.

### Qualified Tuition Programs (529 plans)

Qualified Tuition Programs (also known as 529 plans) allow you to either prepay or contribute to an account established for paying a student's qualified education expenses at an eligible educational institution. In general, you may withdraw funds from a 529 plan on a tax-free basis if the amount(s) does not exceed the qualified expenses for the student less any tax-free educational assistance received.

<sup>1</sup>Related education expenses may include student activity fees and expenses for course-related books, supplies, and equipment, but only if these fees must be paid directly to the college or university as a condition of enrollment or attendance.

<sup>2</sup>Students attending an eligible educational institution in designated counties in the states of Arkansas, Illinois, Indiana, Iowa, Missouri, Nebraska, or Wisconsin may qualify for the special Midwestern Disaster Area rules for the Hope or Lifetime Learning credits, or the Tuition & Fees Deduction. Go to [www.IowaCollegeAid.gov](http://www.IowaCollegeAid.gov) for a list of eligible counties in each state and for details on the expanded qualifying educational expenses.

**Iowa College Student Aid Commission**

200 10TH ST FL 4TH • Des Moines IA 50309-3609

Phone: 877-272-4456 • Fax: 515-725-3401

Email: [info@iowacollegeaid.gov](mailto:info@iowacollegeaid.gov) • Website: [www.iowacollegeaid.gov](http://www.iowacollegeaid.gov)



Your Financial Aid Connection

## When To Claim What!

In general, you may take only one tax credit for each eligible student per tax year. More than one benefit may be claimed in the same year if you are using a different student's expenses to determine the credit (e.g., the Hope Scholarship can be claimed for your college freshman and the Lifetime Learning Credit may be claimed for your college junior). Taxpayers who choose to take a tax-free distribution from a Qualified Tuition Program or Coverdell Education Savings Account also may claim either the Hope Scholarship, Lifetime Learning Credit, or Tuition and Fees Deduction as long as the same education expenses are not used to qualify for each benefit and the taxpayer does not exceed the maximum Lifetime Learning benefit.

You will receive a 1098-T from the college or university that the student attends. The 1098-T will specify the amount of eligible expenses that may be used when calculating your tax credits. You may not claim expenses that were paid with tax-free scholarships,

grants or other educational assistance OR expenses used to claim a different tax benefit or deduction. *You may wish to talk to a tax advisor for help in determining which tax benefit is best for you.*

## Other Tax Benefits Available

There are additional programs available to assist you with the cost of higher education including:

- IRA Withdrawals
- Employer-Provided Educational Assistance
- Education Savings Bonds
- Coverdell Education Savings Accounts (ESA)
- Business Deductions for Work-Related Education

The chart below provides a comparison of the programs outlined in this publication. Contact the IRS directly or consult the IRS's Publication 970 on Tax Benefits for Education to learn more about these and other programs. Call the IRS at 800-829-3676 or go online at [www.irs.gov](http://www.irs.gov).

	Student Loan Interest Deduction	Hope Credit	Lifetime Learning Credit	Tuition & Fees Deduction	Qualified Tuition Programs (529 Plans)
<b>Benefits</b>	Can deduct interest paid	Can reduce the amount of tax you must pay	Can reduce the amount of tax you must pay	Can deduct qualified expenses	Contributions are not taxed
<b>Annual Limits</b>	Up to \$2,500 deduction per tax return	Up to \$1,800 credit per student; \$3,600 for Mid-western Disaster Areas <sup>2</sup>	Up to \$2,000 credit per return; \$4,000 for Mid-western Disaster Areas <sup>2</sup>	Up to \$4,000 deduction per tax return	None
<b>Qualifying Expenses (in addition to tuition and required enrollment fees)</b>	Books, supplies, equipment, room & board, transportation, and other necessary expenses	None; Expanded for Midwestern Disaster Areas <sup>2</sup>	None; Expanded for Mid-western Disaster Areas <sup>2</sup>	None; Expanded for Midwestern Disaster Areas <sup>2</sup>	Books, supplies, equipment, room & board (if student is enrolled at least half-time), and expenses for special needs services
<b>Education Requirements</b>	Undergraduate & Graduate degree programs	First 2 years of undergraduate degree program	Undergraduate & Graduate degree programs, or courses to acquire or improve job skills	Undergraduate & Graduate courses	Undergraduate & Graduate degree programs
<b>Other Conditions</b>	Student for whom the loan was borrowed must have been enrolled at least half-time in a program leading to a post-secondary degree or certificate	Student must be enrolled at least half-time in a program leading to a postsecondary degree or certificate  No felony drug convictions	Can be claimed for all years of postsecondary education, and for courses to obtain a degree, or acquire or improve job skills  Felony drug conviction rule does not apply	Cannot claim both deduction and education credit for the same student in the same year	Contributions cannot be more than the amount necessary to pay the qualified education expenses of the designated beneficiary
<b>Income Guidelines for 2008 Tax Year (income based on Modified Adjusted Gross Income - (MAGI))</b>	Individual returns: • below \$70,000 • reduced benefit for \$55,000-\$69,999 Joint returns: • below \$145,000 • reduced benefit for \$115,000-\$144,999 Married filing separately: • not eligible	Individual returns: • below \$58,000 • reduced benefit for \$48,000-\$57,999 Joint returns: • below \$116,000 • reduced benefit for \$96,000-\$115,999  Married filing separately: • not eligible	Individual returns: • below \$58,000 • reduced benefit for \$48,000-\$57,999 Joint returns: • below \$116,000 • reduced benefit for \$96,000-\$115,999  Married filing separately: • not eligible	Individual returns: • below \$80,000 • reduced benefit for \$65,000-\$79,999 Joint returns: • below \$160,000 • reduced benefit for \$130,000-\$159,999  Married filing separately: • not eligible	No income requirements
<b>How Do you Get the Credit or Deduction?</b>	Use the information from the IRS Form 1098E sent by your loan holder to help determine your maximum deduction.	Complete the IRS Form 8863 to claim the tax credit. Use information from the IRS Form 1098T sent by the college or university to help determine your credit.	Complete the IRS Form 8863 to claim the tax credit. Use information from the IRS Form 1098T sent by the college or university to help determine your credit.	Complete the IRS Form 8917. Use the information from the IRS Form 1098T sent by the college or university to help determine your maximum deduction.	No tax is due on a distribution unless the amount distributed is greater than the beneficiary's adjusted qualified education expenses.

<sup>2</sup>Students attending an eligible educational institution in designated counties in the states of Arkansas, Illinois, Indiana, Iowa, Missouri, Nebraska, or Wisconsin may qualify for the special Midwestern Disaster Area rules for the Hope or Lifetime Learning credits, or the Tuition & Fees Deduction. Go to [www.IowaCollegeAid.gov](http://www.IowaCollegeAid.gov) for a list of eligible counties in each state and for details on the expanded qualifying educational expenses.

